

02-25-09

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

----- In the Matter of -----

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate the  
Implementation of Feed-in Tariffs

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PUBLIC UTILITIES  
COMMISSION

2009 FEB 25 P 4:07

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OPENING STATEMENT OF POSITION  
OF  
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AND  
CERTIFICATE OF SERVICE

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- - - - In the Matter of - - - -

PUBLIC UTILITIES COMMISSION

## Instituting a Proceeding to Investigate the Implementation of Feed-in Tariffs

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- a. More rapid and cost-effective deployment of renewables for utility purchase power, as compared to the pace of competitive bidding processes; and
- b. Similarly, the PBFiT mechanism could also be attractive to a customer that is considering a PBFiT as an alternative to a net metering agreement. Specifically, HREA supports customer choice between a PBFiT and Net Metering.

**2. What are the potential benefits and adverse consequences of PBFiTs for the utilities, ratepayers and the State of Hawaii?**

HREA's Position.

As stated above in our response above to Issue 1, PBFiTs offer the potential for accelerating the deployment of renewables which would benefit the utilities, ratepayers and the State of Hawaii. Other potential benefits to all the stakeholders include:

- a. Reduction of fossil fuel use, which translates to less carbon emissions and avoidance of potential carbon taxes; and
- b. More stability in energy bills over time, as oil price volatility is reduced.

Other Specific Benefits by stakeholder include:

- a. Utilities. HREA believes the utilities will ultimately benefit from overall lower costs to supply electricity and a "cleaner" image that will ultimately be reflected in the price of their shares and bond ratings;
- b. Ratepayers. HREA believes ratepayers (also customers) will have more choice in their energy options, including fulfilling their personal desires to become more energy independent; and
- c. State of Hawaii. HREA believes the State of Hawaii will also benefit from a "cleaner" image (i.e., more tourists will come to see who we are and what we have done) and the increase energy security that will come with increased levels of energy independence, and perhaps most importantly the economic stimulus of increased renewables in Hawaii.

Potential Adverse Consequences include:

- a. Perceived or real negative cost impacts. Perhaps the potential cost impacts can be quantified during this proceeding. Either way, HREA believes the cost for NOT proceeding

with PBFiTs will ultimately be greater. Thus, proceeding with PBFiTs is a smart decision and one that we can make with “no regrets;” and

- b. Perceived or real grid integration impacts. These impacts must be addressed by the utility in collaboration with industry. The technical solutions primarily in the form of ancillary services can and will be solved. There will be ancillary service cost impacts to be paid for by the utility and/or industry, and ultimately the ratepayer. To facilitate the PBFiTs, HREA believes the utility should not only pay for the ancillary services, but be proactive in designing and implementing them.

### **3. Why is or is not the PBFiT the superior methodology to meet Hawaii's clean energy and energy independence goals?**

#### HREA's Position.

HREA does not believe the PBFiT is necessarily the superior methodology to meet Hawaii's clean energy and energy independence goals. First, as noted above the PBFiT must be appropriately designed and implemented. As we indicated in our response to the non-legal questions in Appendix C of the NRRl Scoping paper, the payment rates should be fair and designed to help move the market. Getting this first step right will attract interest from customers, developers, industry and investors. Second, the PBFiT transaction, including all the terms and conditions of the PBFiT Tariff Sheet or Schedule must transparent, reasonable and non-discriminatory. Third, there should be essentially no limits to PBFiT implementation, only “speed bumps” along the way as potential problems with system integration and circuit loading are identified and remedied. PBFiTs have been shown to work well in other jurisdictions when everything is done “right” or shall we say “smart.” If the first round of implementation doesn't succeed, then appropriate corrections must be identified and correct. Overall, getting and keeping it smart is a challenge.

HREA is a long-time fan of competitive bidding, by which we believe the lowest possible prices for renewable energy can be obtained. So a mix or a combination of competitive bidding with PBFiT may be the best strategy for Hawaii. We will say more about this as we respond to other OSOPs and prepare our final SOP.

## **Legal Issues**

- 4. What, if any, modifications are prudent or necessary to existing federal or state laws, rules, regulations or other requirements to remove any barriers or to facilitate the implementation of a feed-in tariff not based on avoided costs?**

### **HREA's Position.**

At the present time, we see one issue that needs to be addressed in our state law (HRS §269-27.2) regarding payments for wholesale renewable power. Specifically, subsection (c) of HRS §269-27.2 reads as follows:

“In the exercise of its authority to determine the just and reasonable rate for the nonfossil fuel generated electricity supplied to the public utility by the producer, the commission shall establish that the rate for purchase of electricity by a public utility shall not be more than one hundred per cent of the cost avoided by the utility when the utility purchases the electrical energy rather than producing the electrical energy.

Therefore, we support an amendment to HRS §269-27.2 to remove the prohibition of wholesale rates above avoided cost that is included in subsection (c). At the present time, there are two bills (HB 1270 and SB 461 before our legislature to address this issue). We believe if there is a satisfactory treatment of this issue in one of these or other bills, the question of modifications to state law will be rendered moot.

- 5. What evidence must the commission consider in establishing a feed-in tariff and has that evidenced been presented in this investigation?**

### **HREA's Position.**

Ideally, there would be sufficient data and information on the costs on existing renewable systems, such that the Commission can make an informed decision on how to structure the PBFiTs. And HREA believes existing data and information are potentially available to the Commission under protective order. However, the same level and detail may not be available for all the technologies of interest for PBFiTs. Nevertheless, HREA will strive to provide supporting information on the technologies that are most appropriate for PBFiTs. At the present time, HREA supports PBFiTs for wind, photovoltaics and concentrating solar power and biomass. We are open to discussion of PBFiTs for other renewable technologies and also storage, and will elaborate on our position regarding the required evidence in our final SOP.

## Role of Other Methodologies

### **6. What is role to other methodologies for the utility to acquire renewable energy play with and without a PBFiT, including but not limited to power purchase contracts, competitive bidding, avoided cost offerings and net energy metering.?**

#### HREA's Position.

As noted above in our response to Issue 3, "HREA is a long-time fan of competitive bidding, by which we believe the lowest possible prices for renewable energy can be obtained. So a mix or a combination of competitive bidding with PBFiT may be the best strategy for Hawaii." Presently, the HECO/CA proposal envisions PBFiTs for smaller systems (500 kW and under Oahu; 250 kW and under on Maui and the Big Island). We cannot support this breakout and suggest the Commission set PBFiTs for up to 20 MW projects. Realizing this might also require a modification to the competitive bidding framework, this begs several questions:

- a. If one or more large facilities, say over 20 MWs, are contemplated, is competitive bidding the best approach. Yes, if the utility has something very specific in mind,
- b. If many smaller projects or facilities are contemplated, is a PBFiT a better mechanism, especially when the requirements are more general;
- c. Does it make sense for a developer to seek a waiver or exemption from competitive bidding? In the case of a waiver or exemption, history tells us negotiation of power purchase agreements is a contentious, drawn out process. So, unless more certainty and fairness is provided in avoided cost offerings, HREA believes its application is less desirable,
- d. While a PBFiT may not get the lowest prices, a PBFiT can provide a stronger market pull mechanism. HREA believes the PBFiT provides a good trade-off, as long as the PBFiT does not favor either the most efficient or less efficient projects; and
- e. Net metering is a policy that is working well and should be allowed to continue working without limits on the size of the customer-generator or the system limit. As noted above, HREA supports customer choice, i.e. both net metering and PBFiT options should be available.

## **Best design for a PBFiT or alternative method**

- 7. What is the best design, including the cost basis, for PBFiTs or alternative feed-in tariffs to accelerate and increase the development of Hawaii's renewable energy resources and their integration in the utility system?**

### **HREA's Position.**

HREA has participated in a collaborative effort spearheaded by the Blue Planet Foundation to investigate a PBFiT alternative to the HECO/CA proposal. Herein, HREA will refer to a "FiT Schedule" that we support and understand will be included with the Blue Planet's OSOP and others. When we say "support" we mean that the FiT Schedule includes an appropriate set of technologies (wind, photovoltaics, concentrating solar power, biomass and others) with proposed island-specific payment rates over a range of facility sizes, and detailed terms and conditions. While taking this step may appear to be the "cart before the horse," HREA believes in doing so, it has helped HREA and other Parties gain focus and traction on what is important about PBFiT design and implementation.

To us, the bottom line is this. If an interested Party looks at the "FiT Schedule," either as provided by Blue Planet or the ultimate result of this investigation, and says simply "this works for me," PBFiTs will work in Hawaii.

That said, while there is much detail in the proposed alternative FiT Schedule, and HREA will have more to say about the design and implementation in its final SOP.

### **Eligibility Requirements**

- 8. What renewable energy projects should be eligible for which renewable electricity purchase methods or individual tariffs and when?**

### **HREA's Position.**

See our response to Issue 7. In addition, the FiT Schedule is designed to be implemented upon the Commission Decision and Order.

## **Analysis of the cost to consumers and appropriateness of caps**

- 9. What is the cost to consumers and others of the proposed feed-in tariffs?**

### **HREA's Position.**

HREA is not prepared at this time to provide detailed information on the overall cost impacts of the PBFiT. In large part, there needs to be agreement as to the overall scope of the PBFiTs and the payment rates before we could assess the likely growth in the renewable market. Given that, we would be in a better position to answer this question, and hope to do so in our final SOP.

**10. Should the commission impose caps based upon these financial effects, technical limitations or other reasons on the total amount purchased through any mechanism or tariff?**

HREA's Position.

This is an important issue and HREA's intent is NOT to gloss over it. As noted in our response to Issue 9, we need to collect more data and information and make some assumptions about the growth of the market, etc. That said, we also believe there is a compelling argument that the benefits of PBFiTs will be equal to or greater than their costs.

HREA would like to note that the cost/benefit issue was discussed in the Net Metering docket (No. 2006-0084). At that time, it was recognized in the Parties stipulation, dated September 9, 2007, to the Commission that while there are costs to the utility in net metering, there are also benefits that need to be considered. We are interested in what other Parties have to say about this issue, especially given parallel discussion regarding the implementation of decoupling in Hawaii.

See also our response to Issue 2.

**Procedural Issues**

**11. What process should the commission implement for evaluating, determining and updating renewable energy power purchase mechanisms or tariffs?**

HREA's Position.

Regarding the PBFiT, we recommend that the utility be required to issue periodic reports on the number and status of PBFiT applications. Perhaps the reports should be monthly for the first year, and less frequently thereafter. We also recommend that the commission conduct an initial review of the PBFiTs at the one year point, and periodically thereafter as appropriate. While the PBFiT would be a special type of power purchase mechanism, HREA suggests that the commission conduct periodic reviews and evaluations of other power purchase mechanisms. Though not on the list of issues, HREA suggests that existing renewable IPPs be offered the opportunity to convert to a PBFiT.

**12. What are the administrative impacts to the commission and the parties of the proposed approach?**

HREA's Position.

Regarding administrative impacts to the commission, HREA believes it wise to continue their consultant agreement with NRRRI to help "Operate and Maintain" the PBFiT. We suspect, but leave it to the commission, as to whether additional staff is required.

Regarding administrative impacts to the Parties, HREA can only speak for itself and its members. Overall, we see the implementation of PBFiTs could significantly reduce the "cost of doing business" in Hawaii, and we welcome the challenge to get it smart.

**B. CONCLUSION**

Given our long-standing state goals to increase our use of renewables and now the HCEI, HREA believes that PBFiT is an excellent addition to our implementation portfolio, which includes and should continue to include competitive bidding and net metering. We believe PBFiT has the potential, if appropriately designed and implemented, to take implementation (or deployment) of renewables in Hawaii up to a whole new level.

DATED: February 25, 2009, Honolulu, Hawaii

A handwritten signature in black ink, appearing to read "David Bodur", is written over a solid horizontal line.

CERTIFICATE OF SERVICE

The foregoing HREA OSOP was served on the date of filing by Hand Delivery or electronically transmitted to each such Party as follows.

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